

FISCAL NOTE

Bill #: HB 181 **Title:** Increasing funding and adjusting benefits in TRS
Primary Sponsor: John Musgrove **Status:** As amended - second reading copy

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
Expenditures:		
General Fund	\$2,115,000	\$2,147,000
State Special Revenue	\$1,000	\$1,000
Federal Special Revenue	\$16,000	\$16,000
Other	\$844,000	\$904,000
Revenue:		
Other	\$8,048,000	\$8,412,000
Net Impact on General Fund Balance:	(\$2,115,000)	(\$2,147,000)

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|--|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact | <input type="checkbox"/> Technical Concerns |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. This bill increases the employer contribution to the teachers retirement system to keep the system actuarially sound, as required by the Constitution of Montana.
2. The increased contributions provided by this bill will sunset when the system's unfunded liability can be amortized over a period equal to or less than 25 years.
3. Total membership is assumed to remain stable.
4. All state payroll expenditures and funding are determined using the state's budgeting system, MBARS.
5. Other payroll information and contribution projections are developed using data provided by TRS.
6. K-12 school amounts are determined by using growth rates of two percent in the amount chargeable to the retirement levy. All school funds are assumed to grow at 4.5 percent, which is TRS' assumed rate.
7. The countywide school fund costs are shared by the state, 27 percent, and county levy, 73 percent.
8. Montana University System Current Unrestricted fund costs are shared by the state, 43 percent, and tuition and other university funds, 57 percent. Increases in MUS Auxiliary and Research programs are funded with fees and research grants, respectively.

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9. An increase in the employer contribution rate (currently 7.47 percent) of 1.2 percent at both July 1, 2005 and July 1, 2007, and a third increase of 0.75% on July 1, 2009, are required to maintain an amortization of the Unfunded Actuarial Accrued Liability over the 30 years beginning July 1, 2004. This results in an increase in the amount employers will be contributing to employee retirement of 16 percent (1.2%/7.47%) in the 2007 biennium, another 16 percent increase in the 2009 biennium, and a final increase of 10 percent on July 1, 2009. These increases total 42 percent over the current contribution rate by July 1, 2009.
10. An increase in the university system's supplemental contribution rate (currently 4.04 percent) of 0.56 percent at both July 1, 2005 and July 1, 2007 is required to amortize past service liability by July 1, 2033. This results in an increase in the amount employers will be contributing to employee retirement of 14 percent (.56%/4.04%) in the 2007 biennium and an additional 14 percent increase, for a total of 28 percent, effective July 1, 2007.

TRS Funding	FY 2006 Required Current Law Contribution	FY 2007 Required Current Law Contribution	FY 2006 HB 181 Additional Contribution	FY 2007 HB 181 Additional Contribution
State				
General Fund	236,000	236,000	38,000	38,000
State Special	8,000	8,000	1,000	1,000
Federal	100,000	100,000	16,000	16,000
Proprietary	5,000	5,000	1,000	1,000
<i>State Subtotal</i>	<i>349,000</i>	<i>349,000</i>	<i>56,000</i>	<i>56,000</i>
Montana University System				
Current Unrestricted – General Fund	1,226,000	1,221,000	197,000	196,000
Current Unrestricted – Other	1,625,000	1,619,000	261,000	260,000
Non Current Unrestricted – Other	238,000	249,000	38,000	40,000
<i>Montana University System Subtotal</i>	<i>3,089,000</i>	<i>3,089,000</i>	<i>496,000</i>	<i>496,000</i>
Montana University System ORP				
Current Unrestricted – General Fund	3,212,000	3,200,000	200,000	199,000
Current Unrestricted – Other	4,258,000	4,242,000	265,000	264,000
Non Current Unrestricted – Other	4,488,000	5,449,000	279,000	339,000
<i>Montana University System ORP Subtotal</i>	<i>11,958,000</i>	<i>12,891,000</i>	<i>744,000</i>	<i>802,000</i>
K-12 Schools				
General Fund	10,460,000	10,669,000	1,680,000	1,714,000
County Levy	28,280,000	28,845,000	4,542,000	4,634,000
Federal	3,302,000	4,419,000	530,000	710,000
<i>K-12 Schools Subtotal</i>	<i>42,042,000</i>	<i>43,933,000</i>	<i>6,752,000</i>	<i>7,058,000</i>
Grand Total	57,438,000	60,262,000	8,048,000	8,412,000

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FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Expenditures:</u>		
Personal Services	1,296,000	1,354,000
K-12 Schools Local Assistance	<u>1,680,000</u>	<u>1,714,000</u>
TOTAL	2,976,000	3,068,000

Funding of Expenditures:

General Fund (01)	2,115,000	2,147,000
State Special Revenue (02)	1,000	1,000
Federal Special Revenue (03)	16,000	16,000
Proprietary Funds (06)	1,000	1,000
University Funds – Tuition and Other	<u>843,000</u>	<u>903,000</u>
TOTAL	2,976,000	3,068,000

Revenues:

Other (09) -- Pension Trust	8,048,000	8,412,000
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Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(2,115,000)	(2,147,000)
State Special Revenue (02)	(1,000)	(1,000)
Federal Special Revenue (03)	(16,000)	(16,000)
Proprietary Funds (06)	(1,000)	(1,000)
University Funds – Tuition and Other	(843,000)	(903,000)
Other	8,048,000	8,412,000

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Over 90% of school district retirement costs are paid with a combination of countywide levy and state guaranteed tax base aid. The remainder is paid with school district federal funds. The countywide school fund costs are shared by the state, 27 percent, and county levy, 73 percent. The 73 percent paid by local levy and the school district federal funds are shown in this table.

Local Impact	FY 2006	FY 2007
Countywide school retirement levies	4,542,000	4,634,000
School federal funds	530,000	710,000
Total Local Impact	5,072,000	5,344,000

LONG-RANGE IMPACTS:

1. The increases shown in this fiscal note for the 2007 biennium will approximately double in the 2009 biennium, when the second half of the contribution increase goes into effect, and increase approximately 30 percent in the 2011 biennium, when the third contribution rate increase goes into effect.
2. The increased employer contribution rate will remain in effect until the TRS amortization period can be maintained at 25 years or less without the additional contributions, and then return to 7.47 percent. Until the employer contribution rate is reduced to the current level, the cost to employers participating in the Teachers' Retirement System will continue to increase at the same rate that wages paid to members of the TRS increases.